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Qingdao City Report

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Report Highlights:

Benefiting from ongoing economic growth in Shandong Province, Qingdao is one of the most important Emerging City Markets (ECM) in northern China. Internationally known for its famous eponymous beer brand (that uses the old spelling “Tsingtao”), the city has natural green spaces, blue skies, and a long coastline. Boosted recently by its role as 2008 Olympics co-host, the city is a major tourist and investment destination. Rising incomes, excellent port facilities and a growing economy provide an excellent market for imported foods. Qingdao also is a good distribution base for food products because Shandong Province is one of the most important agricultural regions in China. The city itself is also a major agricultural and food processing area and hosts a major seafood show every other year. If U.S. firms are considering the Chinese market, Qingdao presents an excellent opportunity to move beyond the first tier cities.

General Information:

Qingdao – an Emerging City Market

Qingdao, Shandong Province Map



Located in the southern tip of the Shandong Peninsula, Qingdao is the industrial and economic heart of Shandong Province. A unique mix of German and Chinese architecture in the old downtown combined with modern high-rises and freeways along a sandy coastline, rocky uplands, and cypress trees all give Qingdao a distinct ambiance. In addition, the city is famous for “Tsingtao” Beer, one of the most popular beers in China and overseas. As co-host of the 2008 Olympic Games, the city continues to benefit from heavy investment in urban infrastructure and a growing economy. Based on its geographical advantages, it also attracts major investment from Korea and Japan. As a sign of the city’s importance, both countries have consulates in Qingdao to service a large number of expatriates and regional trade interests.

Overall Economic Development



Qingdao continued its economic growth in 2008,

despite the world economic slowdown. Official statistics report that total income was \$64.95 billion or RMB 443.6 billion, a 13-percent increase compared with 2007. Although local sources also believe that growth is positive, the consensus is that it is currently 6-7 percent on an annualized basis. Income data and ground truth point to continuing growth – although real increases are likely lower than official data: Living standards continue to improve with average annual income per capita reaching \$3,000 or RMB 20,464 in urban areas, a 15-percent annual increase while the average annual expenditure per capita in urban areas reached \$2,000 or RMB 14,999, a 12-percent increase. Total retail sales totaled \$21.45 billion or RMB 146.5 billion in 2008, a 22-percent increase compared with 2007.

Qingdao forms a part of the Bohai Bay Economic Zone which covers Liaodong Peninsula, Shandong Peninsula, Beijing, Tianjin and Hebei. While Shandong Province is the major producer of major agricultural products such as wheat, cotton, peanuts, fruits, vegetables, and poultry, Qingdao is a major producer of fishery products, processed food, and feed. Reflecting this, the city will host the 2009 Qingdao Seafood Expo, which is one of the largest seafood trade shows in Asia. As one of the most port in northern China and the Bohai Bay Economic Zone, Qingdao has a relatively sophisticated port and logistics infrastructure that enables commodities to be distributed to Shandong and beyond.

Qingdao Port

The Port of Qingdao is an ice-free deep sea port. It is located at the starting point of Qingdao-Jinan Expressway and Jiaozhou-Jinan Railway making it convenient for cargo loading and transportation. In addition to serving Shandong Province, the Port is a gateway to trade in Henan, Hebei, Shanxi, Shaanxi, Gansu, Inner Mongolia and even distant



Xinjiang. The Port has established trade contacts with over 450 ports in more than 130 countries and regions. In terms of volume, in 2007 the throughput of Qingdao Port reached 265.02 million tons, the fifth largest in China. In 2008, total throughput exceeded 300 million tons. In terms of container throughput, Qingdao ranked third in 2007 with a total volume of 9.46 million Twenty Equivalent Unit (TEU) while in 2008, the total volume reached 10 million TEU. It is estimated that in 2009, total throughput will grow at more than 5 percent. According to the statistical data from the Qingdao Customs Administration, the total import and export value of the Qingdao port in 2008 was about \$115.6 billion, an increase of 25 percent. In terms of export value, it increased 13 percent with total value of \$59.54 billion while the import value rose by 40 percent with a total value of \$56.05 billion. However, these numbers probably disguises a slump in late 2008 and early 2009 – and a severe decline

in food exports resulting from food safety issues and slowing growth overseas. Import growth was probably more resilient.

Cold Chain

In 2008, the total output value of logistics-related industries in Qingdao reached \$26.6 billion or RMB 181.9 billion, a 22-percent increase compared with 2007. Qingdao's logistics industry is marked by the rapid development of various logistics zones and supply and delivery centers that have modern operations. This was stimulated by manufacturing and commercial trading sectors.

Cold Chain logistics are more developed in Qingdao compared with most other areas in China because:

- 1) Qingdao is the largest port in Northern China and is also one of the largest ports in China for import and export of agricultural and food commodities;
- 2) Shandong Province is one of the most import agricultural provinces in China.

Current demand for cold chain logistics comes mostly from import and export enterprises requiring cold storage, transportation to distribution centers, and the delivery of food and agricultural products to retail outlets. However, cold chain channels are still not fully developed and are limited lack of awareness amongst consumers and the food sector. However, rising incomes and growing food safety concerns are expected to contribute to greater investment and development in the sector.

Food Service Trends



Qingdao is not only famous for Tsingtao beer, but is also an ideal place to enjoy seafood. Abalone, sea cucumber, crabs, sea conch, scallops, shrimp, and clam are all local delicacies. “Lu” cuisine, representative of Shandong province (and named after the Confucius’ home state), is one of the eight major traditional cuisine styles in China. Local specialties include seafood dishes as well as starchy main courses such as dumplings and pancakes. Seafood is available in almost every restaurant since it can be sourced fresh and then prepared quickly. In recent years, many Korean, Japanese and Western-style restaurants have opened in Qingdao as a result of international trade and investment in the city.

Advertisement for Qingdao Beer

Korean, Japanese and Western Influences

Korean and Japanese restaurants are quite popular because of the presence of many northern Asian expatriates working in Qingdao. There are currently around ten daily flights from Qingdao to Seoul, which is only 90 minutes away. There are also two direct flights to Tokyo, which is only three hours by air. Convenience in travel makes business transit easier than ever. In both Korean and Japanese cuisines, seafood is a major component. Imported salmon, crabs, pork, and other ingredients are in continuous demand by food service outlets.

Qingdao was formerly ruled by Germans for nearly 20 years from 1897 and later by Japanese for 15 years two times separately in 1914 and 1938. This history influenced Qingdao's architecture as well as its cuisine. A famous historical site called "Ba Da Guan" has many old German houses along the beach. This and Tsingtao Beer are the most visible legacies left by the Germans. Nowadays, Western style food services are gaining popularity among the young and hip Qingdao consumers. Music restaurants and themed restaurants offer customers delicious food prepared in a Western style using imported materials and ingredients. They also provide an attractive dining environment for customers to enjoy new tastes or celebrate special occasions. Popular Western restaurants include La Luna, La Villa, Salvatore, Monnemer Eck, and Muranos.

Wine and Beverages

People in northern China are accustomed to consuming wine and liquor. Imported beverages include wines and juices that can be easily found in international hotels, bars, and clubs. U.S. wines including California wines and Washington wines still lack a firm foothold in this market. The supermarket shelves and wine lists are dominated by other origins such as France or Australia. However, potential demand for U.S. wine continues to rise as imported wine gains market share. With increased promotion, Qingdao could be a strong market for U.S. wines.

Local Delights



Local cuisine is abundant, low priced, and fresh year round in Qingdao. “Eat seafood, drink beer, take a bath in the sea” is the typical Qingdao lifestyle according to locals. Seafood is cooked to present the best characteristics of the product. Most often it is steamed or stir-fried and then garnished with spices. With ongoing development of the restaurant sector, Qingdao now has a culinary epicenter, a food street called Yun Xiao Lu, which developed after 1992. Today’s Yun Xiao Lu Food Street has some of the best restaurants in Qingdao’s including Cantonese, Lu, Zhejiang, Korean, Japanese, and Western Style establishments. The street is now nearly a kilometer long, with over 600 outlets, and has expanded into another two streets – Min Jiang Lu and Nan Jing Lu.

Hotel Sector



Qingdao hosted the sailing competition for the 2008 Beijing Olympics, further enhancing the city as a travel destination. Major hotels in include the InterContinental Qingdao, Crowne Plaza, Shangri-la Hotel, HaiTian Hotel, Regent Hotel, Best Western, and the Fu Xin Hotel. The newly built InterContinental Hotel housed sailing athletes during the Olympic Games. These hotels provide venues for events, meetings, business travelers – and are major users of imported products.

Abalone promotion in Hui Quan Dynasty Hotel

Retail Sector



Due to the near-saturation and extremely competitive nature of first-tier city retail markets, multinational retailers are shifting focus to second-tier cities to achieve market expansion (as measured by number of outlets, total sales, and market share). Home to some of the highest income consumers in northern China, Qingdao has attracted attention from overseas. The competition in Qingdao's retail sector includes Jusco, Carrefour, Wal-Mart, Metro, Maykel, and Parkson. Most have outlets located downtown. In addition, Tesco will launch its first outlet in Qingdao this year. This competition among multinational and local retailers is expected only to intensify as Qingdao-based LiQun and Hisense push to expand and protect their market shares.

Qingdao Retail Outlets at a Glance

| Type of Retailer | Name of Retailer | Ownership | Number of Outlet |
|--------------------|------------------|-----------------|------------------|
| Hypermarkets | Carrefour | French JV | 2 |
| | Jusco | Japan JV | 2 |
| | Wal-mart | America | 1 |
| | Metro | German JV | 1 |
| | RT-Mart | Taiwan JV | 2 |
| | Li Qun | Li Qun Group | 11 |
| Supermarket | Maykel | Dalian Da-Shang | 1 |
| | Hisense | Hisense Group | 1 |
| | Parkson | Malaysia JV | 1 |
| | Li Qun | Li Qun Group | 30 |
| Convenience Stores | Li Qun | Li Qun Group | 200 |

Consumers in Qingdao continue to shift from wet markets to supermarkets. While in the past, only higher income people preferred shopping at the supermarkets, more consumers buy food from supermarkets for food safety and other reasons. The downtown location of Jusco and Carrefour in Qingdao keeps these outlets busy, even during office hours.

Hypermarkets in Qingdao are typically adjacent to larger shopping and entertainment complexes, which include monopoly stores, coffee shops, and restaurants – all enabling consumers to combine shopping trips with leisure activities. Free parking is another must for retail operators in Qingdao. Jusco opened its first hypermarket in Qingdao in 1998 with 40,000 M³ of sales area and over 1,000 parking spaces. It has evolved into the number one destination for expatriate and middle class Chinese consumers based on its location, product availability, and quality – as well as excellent service. The Carrefour downtown hypermarket is only ten minutes away on foot from Jusco, resulting in fierce competition between these two retail giants. Carrefour is still recovering from a 2008 consumer boycott resulting from the association of the chain with perceived French support for Tibet. This incident highlights the potency of nationalism in Chinese consumption patterns. This issue forced the store to close and, even after reopening, caused sales to drop by 70 percent. Since the boycott, Carrefour China worked to promote its deep links with local suppliers, consumers and employees. It has also responded by lowering prices. More generally, the retail market for basic staples has not been greatly disrupted by the economic crisis since people need to eat and tend to have set consumption patterns. The only market significantly affected was for high-end products where demand fell sharply.

Most Qingdao supermarkets are also adjacent to department stores. Hisense Plaza opened just before the 2008 Olympic Games and features a variety of luxury brand goods targeted at high-end customers in Qingdao and Shandong Province. Imports in the Hisense Supermarket account for more than 50 percent of store sales. Items such as dairy products have done particularly well in the store. To open the way further for U.S. products, Hisense cooperate with ATO Beijing on a U.S. food promotion in July. Maykel Supermarket, adjacent to the department store of the same name, is currently undergoing reorganization to shift from a middle to upper middle class clientele. The idea is to attract high-end consumers by offering an alternative to the nearby and crowded Carrefour and Jusco stores. These higher-end consumers can afford the added premium for a nicer and user-friendly environment. The Maykel plans to expand its imported food section to more than 300 M³ once the reorganization is complete. Maykel hopes to become another ‘shopping’ destination for local customers looking to source a diverse variety of imported foods.

Based in Qingdao, local retail giant Li Qun Group is the leading retailer in Shandong Province. Li Qun operates 240 hypermarkets, supermarkets, and convenience stores in Qingdao alone. According to Li Qun staff, food sector growth rates have slowed from double digit to 2–3 percent for the first quarter of 2009. While sales volumes increased, food prices dropped by 5–15 percent since last year. Actual revenues declined and retail competition is intense in the economic downturn. Most multinational and local retailers are involved in a price war to maintain current customers and lure new ones. The price war has enabled retailers turn over product more quickly and cut inventories. However, retailer net profits have been further squeezed by brokers and manufacturers. Since Li Qun owns most of its properties this has held down rents. It has also profited since real estate, construction materials, and labor are all available at a lower cost than before.

Retail interest in late-night or extended hours shopping in Qingdao continues to grow with plans to open a large number of 24-hour convenience stores. A Qingdao-based retailer said stores in the city have seen increased profits during late or extended shopping hours. Stores that also operate at night generate nearly as much revenue during these hours as during the daytime. In addition to food, cigarettes and wine sell particularly well at night, especially during the peak hour between 2 and 3 am. Currently more than one hundred such stores operate in Qingdao. The retailer also said that while considerable differences remain between large city shoppers like Beijing-Shanghai, and Qingdao, the city offers

excellent potential for future growth for new-to-market convenience stores.